

(b)(3)(ii)(B) of this section for the issuance of a maturing capital instrument, it must continue to elect that option for all subsequent issuances of maturing capital instruments for as long as there is a balance outstanding of such post-November 7, 1989 issuances. Only when such issuances have all been repaid and the savings association has no balance of such issuances outstanding may the savings association elect the other option.

(4) *General valuation loan and lease loss allowances.* General valuation loan and lease loss allowances established pursuant to regulations and memoranda of the Office up to a maximum of 1.25 percent of risk-weighted assets.⁷

(5) *Unrealized gains on equity securities.* Up to 45 percent of unrealized gains on available-for-sale equity securities with readily determinable fair values may be included in supplementary capital. Unrealized gains are unrealized holding gains, net of unrealized holding losses, before income taxes, calculated as the amount, if any, by which fair value exceeds historical cost. The OTS may disallow such inclusion in the calculation of supplementary capital if the Office determines that the equity securities are not prudently valued.

(c) *Total capital.* (1) A savings association's total capital equals the sum of its core capital and supplementary capital (to the extent that such supplementary capital does not exceed 100% of its core capital).

(2) The following assets, in addition to assets required to be deducted else-

where in calculating core capital, are deducted from assets for purposes of determining total capital:

(i) Reciprocal holdings of depository institution capital instruments;

(ii) All equity investments; and

(iii) That portion of land loans and nonresidential construction loans in excess of 80 percent loan-to-value ratio.

(3) For the purposes of any risk-based capital requirement under this part, a savings association's total capital equals the amount calculated pursuant to paragraphs (c)(1) and (c)(2) of this section, minus the amount of its IRR component as calculated pursuant to § 567.7 of this part.

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§ 567.6 Risk-based capital credit risk-weight categories.

(a) *Risk-weighted Assets.* Risk-weighted assets equal assets plus consolidated off-balance sheet items where each asset or item is multiplied by the appropriate risk weight as set forth in this section. Before an off-balance sheet item can be assigned a risk weight, it must be converted to an on-balance sheet credit equivalent amount in accordance with this section. The risk weight assigned to a particular asset or on-balance sheet credit equivalent amount determines the percentage of that asset/credit equivalent amount that is included in the calculation of risk-weighted assets for purposes of this rule. Assets not included for purposes of calculating capital pursuant to § 567.5 of this part are not included in calculating risk-weighted assets.

(1) *On-balance sheet assets.* The risk categories/weights for on-balance sheet assets are:

(i) *Zero percent Risk Weight (Category 1).* (A) Cash, including domestic and foreign currency owned and held in all offices of a savings association or in transit. Any foreign currency held by a savings association must be converted into U.S. dollar equivalents;

(B) Securities issued by and other direct claims on the U.S. Government or

⁷The amount of the general valuation loan and lease loss allowances that may be included in capital is based on a percentage of risk-weighted assets. The gross sum of risk-weighted assets used in this calculation includes all risk-weighted assets, with the exception of the assets required to be deducted under § 567.6 in establishing risk-weighted assets—"excess GVA" defined as assets required to be deducted from capital under § 567.5(a)(2). A savings association may deduct excess GVA from the gross sum of risk-weighted assets (*i.e.*, risk-weighted assets including general valuation allowances) in computing the denominator of the risk-based capital standard. Thus, a savings association will exclude the same amount of excess GVA from both the numerator and the denominator of the risk-based capital ratio.

its agencies (to the extent such securities or claims are unconditionally backed by the full faith and credit of the United States Government) or the central government of an OECD country;

(C) Notes and obligations issued by either the Federal Savings and Loan Insurance Corporation or the Federal Deposit Insurance Corporation and backed by the full faith and credit of the United States Government;

(D) Deposit reserves at, claims on, and balances due from Federal Reserve Banks;

(E) The book value of paid-in Federal Reserve Bank stock;

(F) That portion of assets that is fully covered against capital loss and/or yield maintenance agreements by the Federal Savings and Loan Insurance Corporation or any successor agency.

(G) That portion of assets directly and unconditionally guaranteed by the United States Government or its agencies, or the central government of an OECD country.

(ii) *20 percent Risk Weight (Category 2).*

(A) Cash items in the process of collection;

(B) That portion of assets collateralized by the current market value of securities issued or guaranteed by the United States government or its agencies, or the central government of an OECD country;

(C) That portion of assets conditionally guaranteed by the United States Government or its agencies, or the central government of an OECD country;

(D) Securities (not including equity securities) issued by and other claims on the U.S. Government or its agencies which are not backed by the full faith and credit of the United States Government;

(E) Securities (not including equity securities) issued by, or other direct claims on, United States Government-sponsored agencies;

(F) That portion of assets guaranteed by United States Government-sponsored agencies;

(G) That portion of assets collateralized by the current market value of securities issued or guaranteed

by United States Government-sponsored agencies;

(H) High quality mortgage-related securities, except for collateralized mortgage obligation residual classes;

(I) Claims representing general obligations of any public-sector entity in an OECD country, and that portion of any claims guaranteed by any such public-sector entity;

(J) Bonds issued by the Financing Corporation or the Resolution Funding Corporation;

(K) Balances due from and all claims on domestic depository institutions. This includes demand deposits and other transaction accounts, savings deposits and time certificates of deposit, federal funds sold, loans to other depository institutions, including overdrafts and term federal funds, holdings of the savings association's own discounted acceptances for which the account party is a depository institution, holdings of bankers acceptances of other institutions and securities issued by depository institutions, except those that qualify as capital;

(L) The book value of paid-in Federal Home Loan Bank stock;

(M) Deposit reserves at, claims on and balances due from the Federal Home Loan Banks;

(N) Assets collateralized by cash held in a segregated deposit account by the reporting savings association;

(O) Claims on, or guaranteed by, official multilateral lending institutions or regional development institutions in which the United States Government is a shareholder or contributing member;⁸

(P) That portion of assets collateralized by the current market value of securities issued by official multilateral lending institutions or regional development institutions in which the United States Government is a shareholder or contributing member.

(Q) All claims on depository institutions incorporated in an OECD country, and all assets backed by the full

⁸These institutions include, but are not limited to, the International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the European Investments Bank, the International Monetary Fund and the Bank for International Settlements.

faith and credit of depository institutions incorporated in an OECD country. This includes the credit equivalent amount of participations in commitments and standby letters of credit sold to other depository institutions incorporated in an OECD country, but only if the originating bank remains liable to the customer or beneficiary for the full amount of the commitment or standby letter of credit. Also included in this category are the credit equivalent amounts of risk participations in bankers' acceptances conveyed to other depository institutions incorporated in an OECD country. However, bank-issued securities that qualify as capital of the issuing bank are not included in this risk category;

(R) Claims on, or guaranteed by depository institutions other than the central bank, incorporated in a non-OECD country, with a residual maturity of one year or less;

(S) That portion of local currency claims conditionally guaranteed by central governments of non-OECD countries, to the extent the savings association has local currency liabilities in that country.

(iii) *50 percent Risk Weight (Category 3)*. (A) Revenue bonds issued by any public-sector entity in an OECD country for which the underlying obligor is a public-sector entity, but which are repayable solely from the revenues generated from the project financed through the issuance of the obligations;

(B) Qualifying mortgage loans and qualifying multifamily mortgage loans;

(C) Non-high-quality mortgage-related securities secured by or representing an interest in qualifying mortgage loans and qualifying multifamily mortgage loans, except for collateralized mortgage obligation residual classes. If the security is backed by qualifying multifamily mortgage loans, the institution must receive timely payments of principal and interest in accordance with the terms of the security. Payments will generally be considered timely if they are not 30 days or more past due.

(D) Qualifying residential construction loans as defined in § 567.1 of this part.

(iv) *100 percent Risk Weight (Category 4)*. All assets not specified above or deducted from calculations of capital pursuant to § 567.5 of this part, including, but not limited to:

(A) Consumer loans;
(B) Commercial loans;
(C) Home equity loans;
(D) Non-qualifying mortgage loans;
(E) Non-qualifying multifamily mortgage loans;

(F) Residential construction loans;
(G) Land loans, except that portion of such loans that are in excess of 80% loan-to-value ratio;

(H) Nonresidential construction loans, except that portion of such loans that are in excess of 80% loan-to-value ratio;

(I) Obligations issued by any state or any political subdivision thereof for the benefit of a private party or enterprise where that party or enterprise, rather than the issuing state or political subdivision, is responsible for the timely payment of principal and interest on the obligations, *e.g.*, industrial development bonds;

(J) Private-issue debt securities except for those qualifying under paragraph (a)(1)(ii) of this section;

(K) Investments in fixed assets and premises;

(L) Certain nonsecurity financial instruments including servicing assets and intangible assets includable in core capital under § 567.12 of this part;

(M) Interest-only strips receivable;

(N) Collateralized mortgage obligation residual classes of mortgage-related securities, regardless of issue or guarantor;

(O) [Reserved]

(P) That portion of equity investments not deducted pursuant to § 567.5 of this part;

(Q) The prorated assets of subsidiaries (except for the assets of includable, fully consolidated subsidiaries) to the extent such assets are included in adjusted total assets;

(R) All repossessed assets or assets that are more than 90 days past due; and

(S) Equity investments that the Office determines have the same risk characteristics as foreclosed real estate by the savings association;

(T) Equity investments permissible for a national bank.

(v) [Reserved]

(vi) *Indirect ownership interests in pools of assets.* (A) Except as provided in paragraph (a)(1)(vi)(C) of this section, assets representing an indirect holding of a pool of assets, *e.g.*, mutual funds, are assigned to risk-weight categories under this section based upon the risk weight that would be assigned to the assets in the portfolio of the pool.

(B) Where the portfolio of the investment company consists of assets that would fall into different risk-weight categories, or contains some assets that would be deducted in calculations of total capital, the entire ownership interest of the savings association will be assigned to the category of the asset with the highest risk weight in the portfolio or excluded from assets and thus deducted from calculations of total capital, as appropriate.

(C)(1) On a case-by-case basis, the Office may allow the savings association to assign the portfolio proportionately to the various risk categories based on the proportion in which the risk categories are represented by the composition of assets in the portfolio. Before the Office will consider a request to proportionately risk-weight such a portfolio, the savings association must have and maintain current information for the reporting period that details the composition of the portfolio of assets.

(2) The minimum risk weight that may be assigned to an ownership interest described in this paragraph (a)(1)(vi) is 20%.

(2) *Off-balance sheet activities.* Risk weights for off-balance sheet items are determined by a two-step process. First, the face amount of the off-balance sheet item must be multiplied by the appropriate credit conversion factor listed in this section. This calculation translates the face amount of an off-balance sheet exposure into an on-balance sheet credit-equivalent amount. Second, the credit-equivalent amount must be assigned to the appropriate risk weight category depending on the obligor (*i.e.*, the 20 percent risk weight category if the obligor is a domestic depository institution or the 100 percent risk category if the obligor is a

private party) and any underlying collateral, *provided* that, the maximum risk weight assigned to the credit-equivalent amount of an interest-rate or exchange-rate contract is 50 percent. Guarantees and other direct credit substitutes by savings associations of the obligations of their service corporations and subsidiaries that qualify as equity investments are assigned a credit-equivalent amount of the entire value of the direct credit substitute. The following are the credit conversion factors and the off-balance sheet items to which they apply:

(i) *100 percent credit conversion factor (Group A).* (A) Direct credit substitutes, including financial guarantee-type standby letters of credit that support financial claims on the account party. The face amount of a direct credit substitute is netted against the amount of any participations sold in that item (except as otherwise provided below). The amount retained by the savings association is converted to an on-balance sheet equivalent and assigned to the proper risk-weight category using the criteria regarding obligors, guarantors and collateral listed herein. Participations are treated as follows:

(1) If the originating savings association remains liable to the beneficiary for the full amount of the standby letter of credit, in the event the participant fails to perform under its participation agreement, the amount of participations sold are converted to an on-balance sheet credit equivalent using a credit conversion factor of 100%, with that amount then being assigned to the risk-weight category appropriate for the purchaser of the participation.

(2) If participations are such that each participant is responsible only for its pro-rata share of the risk, and there is no recourse to the originating institution, the full amount of the participations sold is excluded from the originating institution's risk-weighted assets;

(B) Risk participations purchased in bankers, acceptances and participations purchased in direct credit substitutes;

(C) Assets sold under an agreement to repurchase and the value of assets sold with recourse, to the extent these assets are not included in the savings

association's total assets, except where the amount of recourse liability retained by a savings association is less than the capital requirement for credit-risk exposure, in which case capital must be maintained equal to the amount of credit-risk exposure retained. This category includes loan strips sold without direct recourse where the maturity of the participation is shorter than the maturity of the underlying loan and the ownership of the subordinated portion of a loan participation or package of loans. This category includes loans serviced by associations where the association is subject to losses on the loans, commonly referred to as "recourse servicing". This category also includes transfers of small business loans or leases of personal property with recourse. Such transfers, however, may be subject to the alternative capital computation set forth in paragraph (a)(3) of this section. (Where associations hold a mortgage-related security or a participation certificate (PC) in a mortgage loan swap with recourse, or a subordinated portion as an on-balance sheet asset, the security, PC, or subordinated portion should not be risk-weighted for purposes of the risk-based capital requirement except where the amount of capital otherwise required against the recourse liability under this paragraph would be less than the amount of capital that would otherwise be required against the security, PC, or subordinated portion. The savings association must hold in capital the greater amount of capital that would be required to be held against either the liability or the security, PC, or subordinated portion.);

(D) Forward agreements and other contingent obligations with a certain draw down, *e.g.*, legally binding agreements to purchase assets at a specified future date. On the date an institution enters into a forward agreement or similar obligation, it should convert the principal amount of the assets to be purchased at 100 percent as of that date and then assign this amount to the risk-weight category appropriate to the obligor or guarantor of the item, or the nature of the collateral;

(E) Indemnification of customers whose securities the savings associa-

tion has lent as agent. If the customer is not indemnified against loss by the savings association, the transaction is excluded from the risk-based capital calculation. When a savings association lends its own securities, the transaction is treated as a loan. When a savings association lends its own securities or is acting as agent, agrees to indemnify a customer, the transaction is assigned to the risk weight appropriate to the obligor or collateral that is delivered to the lending or indemnifying institution or to an independent custodian acting on their behalf.

(ii) *50 percent credit conversion factor (Group B)*. (A) Transaction-related contingencies, including, among other things, performance bonds and performance-based standby letters of credit related to a particular transaction. To the extent permitted by law or regulation, performance-based standby letters of credit include such things as arrangements backing subcontractors' and suppliers' performance, labor and materials contracts, and construction bids;

(B) Unused portions of commitments, including home equity lines of credit, with an original maturity exceeding one year except those listed in paragraph (a)(2)(iv) of this section; and

(C) Revolving underwriting facilities, note issuance facilities, and similar arrangements pursuant to which the savings association's customer can issue short-term debt obligations in its own name, but for which the savings association has a legally binding commitment to either:

(1) Purchase the obligations the customer is unable to sell by a stated date; or

(2) Advance funds to its customer, if the obligations cannot be sold.

(iii) *20 percent credit conversion factor (Group C)*. Trade-related contingencies, *i.e.*, short-term, self-liquidating instruments used to finance the movement of goods and collateralized by the underlying shipment. A commercial letter of credit is an example of such an instrument.

(iv) *Zero percent credit conversion factor (Group D)*. (A) unused commitments with an original maturity of one year or less;

(B) Unused commitments with an original maturity greater than one year, if they are unconditionally cancelable at any time at the option of the savings association and the savings association has the contractual right to make, and in fact does make, either:

(1) A separate credit decision based upon the borrower's current financial condition before each drawing under the lending facility; or

(2) An annual (or more frequent) credit review based upon the borrower's current financial condition to determine whether or not the lending facility should be continued; and

(C) The unused portion of retail credit card lines or other related plans that are unconditionally cancelable by the savings association in accordance with applicable law.

(v) *Off-balance sheet contracts; interest-rate and foreign exchange rate contracts (Group E)—(A) Calculation of credit equivalent amounts.* The credit equivalent amount of an off-balance sheet interest rate or foreign exchange rate contract that is not subject to a qualifying bilateral netting contract in accordance with paragraph (a)(2)(v)(B) of this section is equal to the sum of the current credit exposure, *i.e.*, the replacement cost of the contract, and the potential future credit exposure of the off-balance sheet rate contract. The calculation of credit equivalent amounts is measured in U.S. dollars, regardless of the currency or currencies specified in the off-balance sheet rate contract.

(1) *Current credit exposure.* The current credit exposure of an off-balance sheet rate contract is determined by the mark-to-market value of the contract. If the mark-to-market value is positive, then the current credit exposure equals that mark-to-market value. If the mark-to-market value is zero or negative, then the current exposure is zero. In determining its current credit exposure for multiple off-balance sheet rate contracts executed with a single counterparty, a savings association may net positive and negative mark-to-market values of off-balance sheet rate contracts if subject to a bilateral netting contract as provided in paragraph (a)(2)(v)(B) of this section.

(2) *Potential future credit exposure.* The potential future credit exposure of an off-balance sheet rate contract, including a contract with a negative mark-to-market value, is estimated by multiplying the notional principal⁹ by a credit conversion factor. Savings associations, subject to examiner review, should use the effective rather than the apparent or stated notional amount in this calculation. The conversion factors are:¹⁰

Remaining maturity	Interest rate contracts (percents)	Foreign exchange rate contracts (percents)
One year or less	0.0	1.0
Over one year	0.5	5.0

(B) *Off-balance sheet rate contracts subject to bilateral netting contracts.* In determining its current credit exposure for multiple off-balance sheet rate contracts executed with a single counterparty, a savings association may net off-balance sheet rate contracts subject to a bilateral netting contract by offsetting positive and negative mark-to-market values, provided that:

(1) The bilateral netting contract is in writing;

(2) The bilateral netting contract creates a single legal obligation for all individual off-balance sheet rate contracts covered by the bilateral netting contract. In effect, the bilateral netting contract provides that the savings association has a single claim or obligation either to receive or pay only the net amount of the sum of the positive and negative mark-to-market values on the individual off-balance sheet rate contracts covered by the bilateral netting contract. The single legal obligation for the net amount is operative in

⁹For purposes of calculating potential future credit exposure for foreign exchange contracts and other similar contracts, in which notional principal is equivalent to cash flows, total notional principal is defined as the net receipts to each party falling due on each value date in each currency.

¹⁰No potential future credit exposure is calculated for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; the credit equivalent amount is measured solely on the basis of the current credit exposure.

the event that a counterparty, or a counterparty to whom the bilateral netting contract has been validly assigned, fails to perform due to any of the following events: default, insolvency, bankruptcy, or other similar circumstances;

(3) The savings association obtains a written and reasoned legal opinion(s) representing, with a high degree of certainty, that in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy or similar circumstances, the relevant court and administrative authorities would find the savings association's exposure to be the net amount under:

(i) The law of the jurisdiction in which the counterparty is chartered or the equivalent location in the case of noncorporate entities, and if a branch of the counterparty is involved, then also under the law of the jurisdiction in which the branch is located;

(ii) The law that governs the individual off-balance sheet rate contracts covered by the bilateral netting contract; and

(iii) The law that governs the bilateral netting contract;

(4) The savings association establishes and maintains procedures to monitor possible changes in relevant law and to ensure that the bilateral netting contract continues to satisfy the requirements of this section; and

(5) The savings association maintains in its files documentation adequate to support the netting of an off-balance sheet rate contract.¹¹

(C) *Walkaway clause.* A bilateral netting contract that contains a walkaway clause is not eligible for netting for purposes of calculating the

current credit exposure amount. The term "walkaway clause" means a provision in a bilateral netting contract that permits a nondefaulting counterparty to make a lower payment than it would make otherwise under the bilateral netting contract, or no payment at all, to a defaulter or the estate of a defaulter, even if the defaulter or the estate of the defaulter is a net creditor under the bilateral netting contract.

(D) *Risk weighting.* Once the savings association determines the credit equivalent amount for an off-balance sheet rate contract, that amount is assigned to the risk-weight category appropriate to the counterparty, or, if relevant, to the nature of any collateral or guarantee. Collateral held against a netting contract is not recognized for capital purposes unless it is legally available for all contracts included in the netting contract. However, the maximum risk weight for the credit equivalent amount of such off-balance sheet rate contracts is 50 percent.

(E) *Exceptions.* The following off-balance sheet rate contracts are not subject to the above calculation, and therefore, are not part of the denominator of a savings association's risk-based capital ratio:

(1) A foreign exchange rate contract with an original maturity of 14 calendar days or less; and

(2) Any interest rate or foreign exchange rate contract that is traded on an exchange requiring the daily payment of any variations in the market value of the contract.

(3) *Alternative capital computation for small business obligations—*(i) *Definitions.* For the purposes of this paragraph (a)(3):

(A) *Qualified savings association* means a savings association that:

(1) Is well capitalized as defined in 12 CFR 565.4 without applying the capital treatment described in paragraph (a)(3)(ii) of this section; or

(2) Is adequately capitalized as defined in 12 CFR 565.4 without applying the capital treatment described in paragraph (a)(3)(ii) of this section and has received written permission from the OTS to apply that capital calculation.

¹¹By netting individual off-balance sheet rate contracts for the purpose of calculating its credit equivalent amount, a savings association represents that documentation adequate to support the netting of an off-balance sheet rate contract is in the savings association's files and available for inspection by the OTS. Upon determination by the OTS that a savings association's files are inadequate or that a bilateral netting contract may not be legally enforceable under any one of the bodies of law described in paragraphs (a)(2)(v)(B)(3) (i) through (iii) of this section, the underlying individual off-balance sheet rate contracts may not be netted for the purposes of this section.

(B) *Small business* means a business that meets the criteria for a small business concern established by the Small Business Administration in 12 CFR 121 pursuant to 15 U.S.C. 632.

(ii) *Capital requirement.* With respect to a transfer of a small business loan or lease of personal property with recourse that is a sale under generally accepted accounting principles, a qualified savings association may elect to include only the amount of its retained recourse in its risk-weighted assets for the purposes of paragraph (a)(2)(i)(C) of this section. To qualify for this election, the savings association must establish and maintain a reserve under generally accepted accounting principles sufficient to meet the reasonable estimated liability of the savings association under the recourse arrangement.

(iii) *Aggregate amount of recourse.* The total outstanding amount of recourse retained by a qualified savings association with respect to transfers of small business loans and leases of personal property and included in the risk-weighted assets of the savings association as described in paragraph (a)(3)(ii) of this section, may not exceed 15 percent of the association's total capital computed under § 567.5(c)(4).

(iv) *Savings association that ceases to be a qualified savings association or that exceeds aggregate limits.* If a savings association ceases to be a qualified savings association or exceeds the aggregate limit described in paragraph (a)(3)(iii) of this section, the savings association may continue to apply the capital treatment described in paragraph (a)(3)(ii) of this section to transfers of small business loans and leases of personal property that occurred when the association was a qualified savings association and did not exceed the limit.

(v) *Prompt corrective action not affected.* (A) A savings association shall compute its capital without regard to this paragraph (a)(3) of this section for purposes of prompt corrective action (12 U.S.C. 1831o), unless the savings association is adequately or well capitalized without applying the capital treatment described in this paragraph (a)(3) and would be well capitalized after applying that capital treatment.

(B) A savings association shall compute its capital without regard to this paragraph (a)(3) for the purposes of applying 12 U.S.C. 1831o(g), regardless of the association's capital level.

(b) [Reserved]

[54 FR 49649, Nov. 30, 1989, as amended at 57 FR 33439, July 29, 1992; 57 FR 12709, Apr. 13, 1992; 57 FR 33440, July 29, 1992; 58 FR 476, Jan. 6, 1993; 58 FR 15086, Mar. 19, 1993; 58 FR 45813, Aug. 31, 1993; 59 FR 12810, Mar. 18, 1994; 59 FR 4788, Feb. 2, 1994; 59 FR 66652, Dec. 28, 1994; 60 FR 39232, Aug. 1, 1995; 60 FR 45621, Aug. 31, 1995; 62 FR 66264, Dec. 18, 1997; 63 FR 42678, Aug. 10, 1998]

§ 567.7 Interest-rate risk component.

(a) Except as provided in paragraph (c) of this section, a savings association's interest rate risk (IRR) is measured by the decline in the Net Portfolio Value (NPV) that would result from a 200 basis point increase or decrease in market interest rates (whichever results in the lower NPV) divided by the estimated economic value of assets, as calculated in accordance with the OTS Model and guidance issued by the OTS, which will be provided to savings associations and to others in accordance with paragraph (f) of this section. A savings association whose measured IRR exposure exceeds .02 (*i.e.*, 2%) must deduct an IRR component in calculating its total capital for purposes of determining whether it meets its risk-based capital requirement under § 567.2 of this part. The IRR component is an amount equal to one-half of the difference between its measured interest rate risk and .02, multiplied by the estimated economic value of its total assets. Except as provided in paragraph (d) of this section, the IRR component deduction becomes effective beginning on the last day of the third quarter following the reporting date of the Schedule CMR on which the IRR component was based. For the purpose of this section, the reporting date is the last business day of each quarter.

(b) Unless they are exempt from this reporting requirement, all saving associations must file information pertaining to their interest rate risk exposure on a form or schedule designated by the Director. Savings associations with less than \$300 million in assets and risk-based capital ratios in excess of 12 percent are exempt from filing the